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General Manager, Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority
Level 12
1 Martin Place
Sydney NSW 2000

Via email to superannuation.policy@apra.gov.au

Dear General Manager,

AustralianSuper submission to Strategic Planning and Member Outcomes: Proposed enhancements

AustralianSuper welcomes the opportunity to provide a submission to APRA's discussion paper, 'Strategic Planning and Member Outcomes: Proposed enhancements'.

AustralianSuper supports the objective of ensuring that member outcomes considerations are embedded and integrated across an RSE licensee's business operations. From the perspective of the Fund, consideration of member outcomes is at the heart of our purpose and practice. This ranges from our purpose to help members achieve their best financial position in retirement, to our regulatory obligation to act in members' best financial interests and to ensuring member outcomes are clearly defined, monitored and measured to inform our strategic planning processes.

The SPS515 framework is designed to support funds' consideration of these factors by providing a clear structure for strategic planning, connected to member outcomes considerations and AustralianSuper is supportive of the purpose and intent of the prudential standard.

AustralianSuper currently has an extensive program of activities which informs our strategic business and financial planning program, culminating in approval of the Fund's business plan by the Board. We are also committed to ensuring compliance with the Fund's regulatory requirements, including as set out in SPS515.

In relation to the regulatory framework governing funds' planning process, we consider that an appropriate balance must be struck between prescriptive requirements and enabling funds to undertake considered strategic planning appropriate to their internal practice and measures, so long as it can be demonstrated member outcomes are well considered and well served.

Therefore, while we support the policy intent of many of the matters in the discussion paper, we caution against overly prescriptive requirements being included in the prudential standard which would create 'box ticking' rather than promote best practice. To this end we have identified practical suggestions to enhance funds' strategic planning processes, for consideration in our responses to the questions in the discussion paper (see [Attachment](#)).

We would be pleased to provide additional information or to discuss this submission in further detail. If that would be of assistance, please do not hesitate to contact me or [REDACTED], Senior Manager, External Affairs ([REDACTED]).

Regards

[REDACTED]

[REDACTED]
Group Executive Strategy, Reputation & Corporate Affairs

Attachment: Responses to Questions

Defining outcomes for members

- 1. SPS 515 Implementation: Which, if any, provisions in the SPS 515 framework have worked well in improving business planning? Which, if any, provisions have caused unintended consequences? Please provide details.**

AustralianSuper conducts an annual business planning process, culminating in the presentation of a rolling three year business plan to the Board for approval. That process is anchored to the delivery of the Fund's 2030 Strategy and is informed by the Fund's strategy cycle, comprising strategy development, business planning, strategic delivery, measuring and reporting, and ongoing refinement and adjustment of strategic priorities in response.

SPS515 has provided a useful framework for these activities, aligned to the Fund's existing processes. The Fund supports the intent of the prudential standard, to improve outcomes for members, and note this intention is aligned to our existing regulatory obligations. SPS515 has also encouraged the Fund to consider whether our processes are of a high standard.

In terms of unintended consequences, while the Fund undertakes a Business Performance Review (BPR) (and Member Outcomes Assessment (MOA)), the timing of the release of input data (APRA's release of heatmap data) could be improved to support our cycle of strategic reviews to inform business planning. Scheduling the release of APRA's annual fund data and heatmaps for October, rather than December as is currently the case, would better facilitate funds' strategic and business planning cycles and allow for the timelier settlement of the BPR.

We note APRA proposes a new requirement that outcomes must be defined in a *'quantifiable and objective manner which clearly apply either to all beneficiaries or a specified cohort or cohorts'*. As set out above, we encourage a balance between prescription and the enablement of quality planning processes in members' best interests. AustralianSuper currently has a range of quantifiable and objective metrics and clear targets to inform our strategic and business planning and monitor the Fund's performance (including absolute metrics, relative metrics or by segment / cohort). We therefore encourage APRA to consider whether this requirement needs further consideration, including to ensure they don't adversely impact funds' processes where these are currently working well, and how 'quantifiable and objective' outcomes would be specified for all consideration, including for example regulatory compliance activities.

- 2. Defining member outcomes: Has APRA correctly identified the areas for enhancement? What additional areas could benefit from enhanced requirements or guidance to support effective strategic planning and delivery of outcomes to members?**

The member outcomes requirements in SPS 515 were implemented prior to the introduction of the legislated performance test. There is an opportunity for APRA to align performance test data with the requirements of the BPR / MOA, with a view to streamlining the process. Doing so would reduce duplication and avoid confusion.

- 3. Cohorts: What additional guidance could be provided to help inform the development of cohorts?**

Cohort analysis is useful in defining, monitoring and measuring member outcomes. Around 2.9 million Australians trust AustralianSuper with their retirement savings and we understand that not every member is the same. The

Fund currently undertakes an extensive program of customer engagement, customer segmentation, data gathering and analysis and insight generation, to inform both strategic planning and ongoing business activities.

Given the different demographic and other characteristics of members across all funds, we do not support requirements for cohort analysis being so strict as to prevent individual funds from determining relevant and appropriate definitions of cohorts for use in their own strategic planning (including BPR/MOA) processes. We also note that 'all members' or 'all beneficiaries' may be a single and relevant cohort in some circumstances, for example the experience of members through particular contact or service channels.

4. Pre- and post- retirement cohorts: What challenges, if any, has industry faced in developing cohorts of members for the purposes of the retirement income strategy?

We note that APRA proposes requirements for cohorts to be identified having regard to the requirements relating to the class or subclass of beneficiaries who are retired or approaching retirement (page 11 of the Discussion Paper).

As set out above, AustralianSuper conducts extensive data analysis and insight generation to support us to deliver appropriate products and services to members collectively and by segment.

In preparing the Fund's Retirement Income Strategy, AustralianSuper segmented members on the basis of likely Government Age Pension (GAP) eligibility and life stage (full GAP, part GAP, no GAP) This requires us to first segment the retirement cohort and then to configure the data on the basis of these affluence bands.

While this approach ensured the Fund complied with the requirements for a Retirement Income Strategy, we note the cohorts did not fully reflect the diverse circumstances of members and therefore did not allow for highly detailed consideration of retirement outcomes. This is because much of the differentiating information is not routinely collected or stored by super funds. Examples include assets (and liabilities) held outside of super, marital status, home ownership, health and risk appetite. While developing more specific cohorts would arguably provide for more particular analysis, RSEs would need to capture, attribute, store and update additional data not currently held or captured (or capable of capture) by Funds. As such, in making decisions about requirements for specific or particular cohorts, APRA should balance the benefits of more specific cohorting analysis with the appropriateness of, practicality and costs involved, in collecting the additional data required to give effect to this.

Managing financial resources

5. Management of financial resources on a business-as-usual basis: To what degree would taking the above approach to financial management, including adoption of performance measures, monitoring and stress testing, differ from current practices? How might such obligations be implemented without undue regulatory burden?

We note that on the management of financial resources in the ordinary course of business APRA proposes to include in SPS 515 more specific obligations aimed at ensuring holistic financial management practices by RSE licensees. APRA indicates that these measures are likely to include obligations on RSE licenses to adopt and clearly articulate financial management related performance measures, action plans, objectives, strategic goals and targeted outcomes for members (page 13 of the Discussion Paper).

As set out above, policy makers and regulators must strike an appropriate balance between regulatory activity which leads to meaningful improvements and regulatory activity that requires the diversion of resources to undertake activity for the purpose of demonstrating compliance.

AustralianSuper's approach to financial management and planning is based on regular forecasting, measurement, monitoring and reporting and the matters listed in the question. Our approach aligns with that of large corporates and we undertake this work in accordance with the Fund's various regulatory obligations and sound financial and accounting practices.

Given our current practice broadly aligns with the activities in question 5, we would caution against new or particular requirements being imposed upon funds which can demonstrate the robustness of their existing processes.

We also note the proposal in the discussion paper to require entities to undertake stress testing and scenario analysis to determine the robustness of the financial management strategy and forecasts. Where APRA proposes to specify particular actions must be undertaken by an RSE, we ask that APRA provide sufficient certainty about their expectations on funds to ensure any new requirements can be clearly understood and complied with.

6. Management of financial resources on a business-as-usual basis: What, if any, unintended consequences may arise from these proposed requirements? Please provide details.

See answer to Question 5, above.

7. Financial resources to manage and respond to operational risk: Given the scope of the current requirements in SPS 114, much of the financial resources to manage and respond to operational risk have, necessarily, been met through existing reserves. How do RSE licensees presently use their financial resources to minimise the impact of operational risk events on members?

AustralianSuper maintains an Operational Risk Financial Requirement Reserve, in accordance with SPS 114. Our Operational Risk Financial Requirement policy meets the requirements in SPS 114 and SPG 114.

In managing and mitigating operational risk we have previously raised concerns to APRA about the increasing size of the Operational Risk Financial Requirement Reserve from a members' best financial interest perspective. AustralianSuper's March 2022 submission on APRA's discussion paper on Strengthening Financial Resilience in Superannuation suggested improvements to SPS 114 and SPG 114 by recommending that APRA consider a broader capital adequacy standard covering all reserves, including those established for operational risk events.

The requirement target of 0.25% of assets under management to be held to address operational risk events can impact business operations and financial resources. If the reserves are excess to modelled requirements and those members' funds cannot be invested in line with the broader fund's investment strategy, it cannot be concluded that the current framework is in members' best financial interests. AustralianSuper's internally modelled operational risk calculation concluded that a lower level of reserves could be held to reflect both the organisation's inherent risk characteristics, and significant investment to uplift our risk management framework.

Resourcing deployed to the management of operational risk is an investment in minimising the need for the ORFR and reducing its growth in the future.

Financial projections

8. Board oversight and projections: How does the Board currently satisfy itself that a robust financial projections methodology underpins the business plan? How does the Board intend to develop its use of financial projections (and assumptions underpinning them) presented in the business plan?

AustralianSuper's Board provides oversight on SPS515 via the Fund's annual strategy and planning cycle. This is an integrated set of management processes that reviews and learns from performance, adapts and sets clear priorities aligned to the Fund's 2030 Strategy, and allocates resources accordingly.

AustralianSuper also has extensive processes and controls which are used to monitor the adequacy of the Fund's financial resources, which include the:

- three-year financial plan for the Trustee and Fund, approved by the Finance & Audit Committee and the Board, which is refreshed on an annual cycle. The plan is based on actuarially modelled expectations for member numbers and FUM growth – which are then used to set guardrails for expenditure that ensure target levels of reserves are maintained over the duration of the planning period; and
- bi-annual detailed re-forecast of the annual plan to re-calibrate for actual performance – and expected future performance over the remainder of the fiscal year.

Fee setting principles

9. Fee setting principles: What additional fee setting principles should be reflected in the SPS 515 framework?

AustralianSuper sets fees in accordance with our regulatory obligations and the Fund's Pricing Principles Policy which includes five principles: Competitive; Equitable; Sustainable; Simple; Compliant.

As such, should APRA wish to include principles in the prudential standard, we recommend consideration be given to enabling funds to proceed in accordance with their current practice where their principles align with the intent of any change; alternatively, where principles are specified, they should accommodate funds' existing practices where these can be demonstrated to deliver strong member outcomes on a net benefit basis.

Our approach to pricing is an essential component to us delivering on our purpose of helping members achieve their best financial position in retirement. As a profit-for-member Fund, we believe the fees charged to members should reflect the costs required to operate the Fund efficiently and in compliance with our regulatory obligations, and to successfully execute our strategy in the interests of members.

Each of the Fund's products need to generate sufficient surplus to allow for the continued operation of the Fund as set out above. We endeavour to allocate all costs fairly across members and products. Where those costs are directly related to a particular product or service and can be identified as such, our approach is to reflect that cost in the pricing of that product or service. In addition to direct costs the Fund allocates indirect costs fairly across all products.

Our pricing is reviewed by the Product Pricing Committee and approved by the Member Employment Services Committee, and Finance and Audit Committee, and ultimately the Board.

As an additional matter, we note APRA's concern that RSE licensees consider the sustainability of their operating model when setting fees. The current structure of the performance test only uses the most recent year of fees and as such may discourage RSE licensees from taking a sustainable approach in relation to setting fees as recommended by APRA. The performance test is currently being reviewed through a Treasury process and in our submission to that review we have recommended that the performance test be adjusted to include

administration and other fees (as this provides members with a net benefit outcome) and that the duration of the test – for investment performance and fees – be extended to ten years.

Assessing performance

10. The performance assessment cycle: What challenges have RSE licensees experienced in aligning the timing of the member outcomes assessments and annual BPRs and business planning cycles? How might these challenges be avoided in future?

The discussion paper proposes to clarify that, whilst RSE licensees may determine the timing of their business planning cycle, the BPR and MOA must be undertaken prior to the Board's approval of the next business plan, allowing for sufficient time for planning to be informed by the most recent performance assessments.

We can confirm that, under AustralianSuper's existing planning cycle, the Board does not approve the Fund's business plan prior to the completion and consideration of the Fund's BPR / MOA. This is because the BPR/MOA is currently considered in February and the business plan in June.

Under the current arrangements funds' business plans for FY24-26 would be informed by a BPR/MOA based on FY22 data. AustralianSuper therefore uses additional inputs and data to inform our business planning.

11. Benchmarks: How have RSE licensees incorporated the result of APRA's heatmaps and the legislated performance test into their BPRs?

In order to meet our obligations under SPS 515 to assess member outcomes against operating, we require the benchmark of operating costs that are collected from the annual APRA fund level statistics. AustralianSuper incorporates APRA's heatmaps and the performance test into our annual BPR. As noted above, APRA's heatmaps and annual statistics are not available until December for the preceding financial year. Releasing this data earlier (eg in October) would allow RSEs' BPRs to be settled in a more timely manner to inform business planning.

12. Benchmarks: What additional benchmarks do RSE licensees consider when assessing performance? In determining an overall assessment of outcomes, how are the various benchmarks weighted?

AustralianSuper uses a wide range of additional benchmarks when assessing performance across a range of activities. The three comparison factors; net returns, fees and costs, and the standard risk measure, hold the biggest weighting.

13. Data: What additional areas of data would be useful in developing comparable assessments of performance?

The legislated performance test currently only applies to a limited cohort of funds and products, that is MySuper and, from next year, Trustee Directed Products. We note that APRA has previously calculated the value of funds under management in Choice products that will not be Trustee Directed Products as 33% of FUM of all APRA-regulated superannuation products.¹

¹ APRA – 13 April 2021 - Senate Economics Legislation Committee – Answers to Questions on Notice - Treasury Laws Amendment (Your Future, Your Super) Bill 2021.
https://www.apf.gov.au/Parliamentary_Business/Committees/Senate/Economics/TLABYFYS/Additional_Documents

As such AustralianSuper has consistently advocated for the performance test to apply across the sector to ensure all members receive information about performance. The broader application of the test would also provide data from a broader range of products i for the purpose of comparative assessments.

14. Data: What data (including benchmarks) do RSE licensees plan to use to develop retirement cohorts and assess performance of post retirement income strategies?

See answer to Question 13, above.